

## Message Text

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ACTION EB-11

INFO OCT-01 EUR-25 ISO-00 TRSE-00 SS-20 NSC-07 FRB-02

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FM AMEMBASSY MOSCOW

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AMEMBASSY PARIS

C O N F I D E N T I A L MOSCOW 7139

E.O. 11652: GDS

TAGS: ETRD, UR, US

SUBJECT: KAISER ENTERS NEW ROUND OF NEGOTIATIONS WITH SOVIETS  
ON ALUMIMUM PROJECT

USDOC FOR BEWT/BOWDEN

REF: MOSCOW 5340

1. SUMMARY. IN MEETING WITH AMBASSADOR MAY 13, KAISER INDUSTRIES VICE CHAIRMAN E. G. TREFETHEN GAVE RELATIVELY OPTIMISTIC REPORT ON STATUS OF NEGOTIATIONS ON PROPOSED ALUMINA/ALUMINUM DEAL. ALTHOUGH SHARPLY SCALED DOWN FROM ORIGINAL SOVIET PROPOSAL, ( MOSCOW 712) VALUE OF PROJECT IS IN \$2-2.5 BILLION RANGE WITH IMPORTED COMPONENT APPROXIMATELY ONE-THIRD. KAISER TEAM CURRENTLY IN MOSCOW DUE REMAIN HERE THROUGH MAY 23 AND SIGNING OF LETTER OF INTENT ON PROJECT IS POSSIBLE BY THAT TIME. SOVIETS HAVE INDICATED THAT THEY SEE ANNOUNCEMENT OF AGREEMENT AS POSSIBLE MATERIAL FOR UPCOMING HIGH-LEVEL US-SOVIET MEETING. END SUMMARY.

2. TREFETHEN ADVISED THAT SOVIETS AND KAISER TEAM WERE ENGAGED IN FINAL WORK ON "SCOPE" OF PROJECT. SOVIETS NOW HAVE DEFINITELY DECIDED TO BREAK ORIGINAL PROPOSAL FOR 3  
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MILLION TONS OF ALUMINA CAPACITY AND 1.5 MILLION TONS OF

ALUMINUM CAPACITY, PLUS ASSOCIATED ROLLING MILLS, INTO THREE SECTIONS:

(1) 1 MILLION TON ALUMINA PLANT LOCATED IN KOLA PENINSULA WHICH WILL WORK ON BASIS OF LOCAL NEPHELINE ORES PLUS 500,000 TONS ALUMINUM SMELTER EITHER IN NORTHERN KAZAKHSTAN (PAVLODAR) OR WESTERN SIBERIA PLUS VERY LARGE ROLLING MILL AT SITE OF SMELTER. SOVIETS PROPOSE ENTRUST THIS TO KAISER;

(2) 500,000 TON ALUMINUM SMELTER IN WESTERN SIBERIA WORKING ON BASIS ALUMINA FROM GUINEA. THIS IS PROJECT WHICH SOVIETS ARE DISCUSSING WITH PECHINEY-UGINE KUHLMANN.

(3) 500,000 TON ALUMINUM SMELTER IN TIDEWATER LOCATION TO BE SELECTED WORKING ON BASIS IMPORTED ALUMINA. SOVIETS HAVE INDICATED THAT IF PROJECT UNDER POINT (1) ABOVE PROCEEDS RASUCCESSFULLY, THEY WOULD WISH ENTRUST THIS PLANT TO KAISER AND PURCHASE NECESSARY ALUMINA FROM KAISER.

3. AS REPORTED REFTEL, KAISER HAS MADE NECESSARY ARRANGEMENTS FOR FINANCING WITH BANK OF AMERICA/FIRST BOSTON AND HAS SET UP CONSORTIUM WITH RIO TINTO-ZINC AND MITSUBITSHI TO HANDLE SALES OF ALUMINUM TAKE IN PAYMENT OF CREDITS. TREFETHEN SAID, HOWEVER, THAT KAISER STRONGLY HOPES EX-IM BANK FINANCING WILL ALSO BE

AVAILABLE. HE ALSO INDICATED THAT KAISER WOULD WELCOME SOME EXPRESSION OF SUPPORT FOR ITS SOVIET VENTURE FROM U.S. GOVERNMENT, ALTHOUGH HE NOTED, AND AMBASSADOR CONFIRMED, THAT PROJECT WOULD CERTAINLY APPEAR CONSISTENT WITH ADMINISTRATION'S POLICY OF EXPANDED TRADE BETWEEN US AND USSR. IN SUPPORT OF HIS SUGGESTION THAT WORD OF ENCOURAGEMENT FROM U.S. GOVERNMENT WOULD BE IN ORDER, TREFETHEN STRESSED THAT NO OTHER U.S. FIRMS WERE INVOLVED IN COMPETITION FOR PROJECT WHICH KAISER DISCUSSING WITH SOVIETS AND THAT PECHINEY'S NEGOTIATIONS WERE NOT EVEN COMPETITIVE. TREFETHEN AGREED KEEP EMBASSY INFORMED OF PROGRESS IN NEGOTIATIONS.

4. DURING DISCUSSION, ANOTHER MEMBER OF KAISER GROUP REPORTED THAT OFFICIAL OF STATE COMMITTEE FOR SCIENCE AND TECHNOLOGY, WHICH HAS BEEN CLOSELY CONNECTED WITH KAISER PROJECT SINCE ITS CONFIDENTIAL

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INCEPTION, SUGGESTED THAT ANNOUNCEMENT OF KAISER-SOVIET ALUMINUM AGREEMENT WOULD BE APPROPRIATE SUBJECT FOR UPCOMING HIGH-LEVEL MEETING. SOVIET OFFICIAL IN QUESTION REPORTEDLY OBSERVED THAT KAISER PROJECT WAS ONLY MAJOR PENDING US-SOVIET COMMERCIAL AGREEMENT IN SUFFICIENTLY ADVANCED DEGREE OF READINESS FOR ANNOUNCEMENT AT SUMMIT. TREFETHEN OBSERVED THAT KAISER HAD DELIBERATELY AVOIDED PUBLICITY ON ITS NEGOTIATIONS THUS FAR BUT WOULD OBVIOUSLY NOT BE ADVERSE TO ANNOUNCEMENT

DURING JUNE IF PROGRESS IN NEGOTIATIONS JUSTIFIED. HE ALSO  
NOTED THAT KAISER CHAIRMAN EDGAR KAISER WOULD BE IN MOSCOW  
FOR STANFORD RESEARCH INSTITUTE SEMINAR AT END OF JUNE.  
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